Session 6: Enhancing Pharmaceutical Procurement

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Session Objectives

- Recognize the characteristics of a good pharmaceutical procurement system
- Identify and describe the steps in the procurement cycle
- Discuss regional collaboration for procurement
- Discuss procurement of pharmaceuticals using USAID funds
- Discuss the challenges in the procurement of HIV/AIDS, TB, and malaria supplies
Session Outline

• Introduction
• Operational principles for good procurement
• The procurement cycle and methods
• Regional collaboration for procurement
• USAID procurement
• Procurement guidelines
• Challenges in procurement
• Case study
Objectives of a Good Procurement Program

• Procure the right drugs in the right quantities at the lowest possible total cost
• Select reliable suppliers of quality products
• Ensure timely delivery and notification
Operational Principles for Good Procurement

• Efficient and transparent management
• Drug selection and quantification
• Financing and competition
• Supplier selection and quality assurance
Good Procurement Practices (1)

- Generic name
- Limited to essential medicines list or formulary list
- Bulk purchases
- Formal supplier qualification and monitoring
- Competitive bidding process
- Commitment to a sole source
Good Procurement Practices (2)

- Order quantities based on reliable estimate of actual need
- Reliable payment and good financial management
- Transparency and written procedures
- Separation of key functions
- Product quality assurance program
- Annual audit with published results
- Regular reporting on performance
Impact of Hidden Costs in Procurement

Source: MSH: Management Sciences for Health. Used with permission.
The Procurement Cycle

1. Receive and Check Drugs
2. Make Payment
3. Distribute Drugs
4. Collect Consumption Information
5. Review Drug Selections
6. Determine Quantities
7. Reconcile Needs and Funds
8. Choose Procurement Method
9. Locate and Select Suppliers
10. Specify Contract Terms
11. Monitor Order Status

Source: MSH: Management Sciences for Health. Used with permission.
## Procurement Methods

<table>
<thead>
<tr>
<th>Method</th>
<th>Effect on Price</th>
<th>Lead Time</th>
<th>Work Load</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Tender</td>
<td>Usually lowest prices</td>
<td>Moderate to long</td>
<td>High</td>
</tr>
<tr>
<td>Restricted Tender</td>
<td>Favorable</td>
<td>Moderate to long</td>
<td>High</td>
</tr>
<tr>
<td>Competitive Negotiation</td>
<td>Can be favorable</td>
<td>Short to moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Direct Procurement</td>
<td>Usually highest prices</td>
<td>Short to moderate</td>
<td>Low</td>
</tr>
</tbody>
</table>
Defining Regional Collaboration for Procurement

• Wide variation exists in types of regional collaboration for procurement

• Spectrum of options ranges from the simple sharing of information to the actual pooling of resources and requirements combined with contracting and purchasing by an agency acting on behalf of the group of countries
Models of Regional/Country Collaboration

- Information Exchange
  - Informed buying
  - Coordinated informed buying

- Pooled Procurement
  - Group contracting
  - Central contracting
## Characteristics of Models

<table>
<thead>
<tr>
<th>Information Sharing</th>
<th>Pooled Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Informed Buying</strong></td>
<td><strong>Coordinated Informed Buying</strong></td>
</tr>
<tr>
<td>Member countries share information about prices and suppliers</td>
<td>Member countries undertake joint market research, share supplier performance information, and monitor prices</td>
</tr>
<tr>
<td>Countries conduct procurement individually</td>
<td>Countries conduct procurement individually</td>
</tr>
</tbody>
</table>
# Pooled Procurement Initiatives

<table>
<thead>
<tr>
<th>Name of Initiative</th>
<th>Year</th>
<th>No. of Countries</th>
<th>Status</th>
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<tbody>
<tr>
<td>FORMED</td>
<td>1986</td>
<td>3</td>
<td>Defunct</td>
</tr>
<tr>
<td>OECS/PPS</td>
<td>1986</td>
<td>9</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Gulf Cooperation Council</td>
<td>1986</td>
<td>6</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Arab Maghreb Union</td>
<td>1989</td>
<td>3</td>
<td>Inactive</td>
</tr>
<tr>
<td>ACAME</td>
<td>1996</td>
<td>6</td>
<td>?</td>
</tr>
<tr>
<td>Pacific Islands</td>
<td>1999</td>
<td>3</td>
<td>?</td>
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</tbody>
</table>
Advantages of Pooled Procurement

- Reducing drug costs through economies of scale
- Harmonizing drug registration among countries
- Harmonizing standard treatment guidelines (STGs) and essential medicines lists (EMLs)
- Improving quality assurance systems
- Improving supplier performance
Lessons Learned from Pooled Procurement

• Political will and organizational commitment
• Permanent and autonomous secretariat
• Harmonization and standardization
• Strong procurement systems
• Finances/reliable payment
• Quality assurance
USAID Procurement Requirements

- Pharmaceutical products
- Safety, efficacy, and quality
- “Buy America”
- Protection of U.S. patents
Challenges in Meeting USAID Procurement Requirements (1)

- Lack of guidance material to assist in what is perceived to be a complex process
- Preferential procurement of U.S. S/O, FDA-approved products may result in:
  - Increased costs and delays
  - Reduction in the impact of the program
  - Negative effect on the harmonization of pharmaceutical products within a country
  - The approved product may not be the most appropriate product for that program in the country context
Challenges in Meeting USAID Procurement Requirements (2)

Missing information

- Justification for not procuring a U.S. source of origin pharmaceutical product
- Information on the capacity of the program to use the product appropriately
- Data to attest to the safety, efficacy, and quality of the product
Options for Meeting Challenges

• Briefing document to provide guidance to cooperating agencies (CAs) and Missions on USAID procurement guidelines and procedures

• Technical assistance to USAID Missions and CAs in preparing requests for approval

• Implementation of Supply Chain Management System (SCMS)
World Bank Procurement Guidelines

• Principles
  – Need for economy and efficiency
  – Need to give all eligible bidders opportunity to compete
  – Encourage development of local industries in borrowing country
  – Importance of transparency
World Bank Procurement Methods

- International competitive bidding
- National competitive bidding
- Limited international bidding
- International or local shopping
- Direct procurement (sole sourcing)
- Cost-based selection
- Quality-based selection
- Limited budget selection
ARV Registration and Procurement – The Case of Ethiopia (1)

Background

- ART supported by GFATM and the U.S. President’s Emergency Plan for AIDS Relief
- Distinct sites will receive ARV drug support from the Emergency Plan or GFATM
- First-line ARVs for adults have been introduced only for paying patients
- National treatment guidelines were under revision at the time of quantification and procurement
- Drug requirements for 6 months are to be received in two shipments
ARV Registration and Procurement – The Case of Ethiopia (2)

Registration

• Manufacturers are not interested in registering some drugs in Ethiopia

• Some manufacturing sites and pack sizes vary from those of registered products

• Full provision of second-line drugs has to be postponed until national treatment guidelines are endorsed

Quantification

• Uptake of newly introduced pediatric and second-line treatment unknown

• Intensive collaboration crucial for agreement on drug selection and projection of the capacity for scaling up
Pharmaceutical Donations

• Types
  – Solicited
  – Unsolicited

• Problems
Issues in Procurement of ATM Drugs and Supplies (1)

- Quantification of needs
- Chaotic and confused global market situation
- Doha Declaration on the TRIPS Agreement
- Donation programs
- Limited number of sources/suppliers
- High cost of supplies
Issues in Procurement of ATM Drugs and Supplies (2)

- Potential for corruption
- Varied and changing treatment regimens
- Variety of formulations
- Quality concerns
- Limited knowledge
- Limited sources of raw materials
Common Procurement Challenges

• Absence of a comprehensive procurement policy
• Inadequate rules, regulations, and structures
• Public sector staff with little experience and training to respond to market situations
• Government funding that is insufficient and/or released at irregular intervals
• Donor agencies with conflicting procurement regulations
• Fragmented drug procurement at provincial or district level
• Lack of unbiased market information
• Corruption and lack of transparency
Summary

• Characteristics of a good pharmaceutical procurement system
• Steps in the procurement cycle
• Regional collaboration for procurement
• USAID procurement procedures
• Challenges in the procurement of HIV/AIDS, TB, and malaria supplies